clarepine

CLAREPINE DEVELOPMENTS LTD.
1981 ANNUAL REPORT

PRESIDENT'S REPORT TO THE SHAREHOLDERS

Gross revenue for 1981 was \$9,508,000 against \$3,606,000 for 1980. Cash flow from operations, after deducting income taxes of \$230,000 (6.1¢ per share) which were recovered as an extraordinary item, was \$893,000 (23.7¢ per share). Final net income for the year after allowing for extraordinary items was \$632,000 (16.8¢ per share).

The period since the announcement of the National Energy Program in October 1980 has been a time of crisis for many businesses in Alberta. Although we have fared better than many, I would be remiss in my duties and responsibilities as the Chief Executive Officer and major shareholder of this company if I did not advise you that I view the present economic situation with increasing concern. Our company is not invulnerable to a sustained period of continuing business decline.

With our economy in the worst tailspin since the 1930's, we are also faced with high interest rates, inflation, poor productivity, strikes, unemployment, declining dollar relative to the U.S., an unfavourable balance of payments, a public rapidly losing confidence in parliament as an effective institution, a confiscatory National Energy Program, the most disastrous and disgraceful budget in the history of the country, flight of capital to the U.S., bankruptcies across the span of the business community including agriculture, an excess of marketing boards, Quebec separation, Western separation, and Governments proceeding with major economic intervention on a patchwork basis with no real sense of direction. In spite of all of the above and radically changed market conditions, I see no sign of a moderation in income demands by organized labour.

The country is crying out for leadership. Political and economic repercussions could be severe as a result of the present methods of pursuing deflationary policies. You cannot have an effective long term strategy against inflation without doing something about wages and prices. With Government providing guidelines and taking the lead, we must have reduced demands by labour. Profits must be ploughed back into businesses and through our tax policy employees and employers who conform to established guidelines should be rewarded.

In view of the situation in which we now find ourselves, one can only be pessimistic for the short term. However, should federal and provincial fiscal and monetary policies gradually change over the next few months, one can be cautiously optimistic for 1983 and beyond.

Respectfully submitted on behalf of Management and the Board of Directors.

R. A. McAlpine

R. A. McAlpine
PRESIDENT & C.E.O.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Clarepine Developments Ltd. as at November 30, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Edmonton, Canada
February 26, 1982

CONSOLIDATED BALANCE SHEET

November 30, 1981

Assets	1981	1980
Current assets:		
Cash	$ —	$ 483,000
Accounts receivable	2,337,000	2,200,000
Inventories	887,000	586,000
Agreements receivable, current portion (note 2)	262,000	27,000
Prepaid expenses and deposits	86,000	236,000
Fixed assets held for sale	—	1,300,000
	3,572,000	4,832,000
Agreements receivable (note 2)	784,000	27,000
Property, plant and equipment (note 3)	6,911,000	6,917,000
Oil and gas properties and equipment (note 4)	431,000	559,000
Other assets	119,000	140,000
	$11,817,000	12,475,000

Liabilities and Shareholders' Equity

	1981	1980
Current liabilities:		
Bank advances (note 5)	$ 383,000	$ 1,652,000
Accounts payable and accrued liabilities	2,035,000	2,452,000
Income taxes payable	78,000	139,000
Current portion of long-term debt (note 6)	491,000	930,000
Current portion of deferred revenue	25,000	25,000
	3,012,000	5,198,000
Long-term debt (note 6)	3,595,000	2,941,000
10% convertible income debentures	—	259,000
Deferred revenue	—	25,000
Deferred income taxes	216,000	295,000
Minority interest	2,593,000	1,925,000
Share capital (note 7)	683,000	671,000
Retained earnings	1,718,000	1,161,000
	2,401,000	1,832,000
	$11,817,000	$12,475,000

See accompanying notes to consolidated financial statements.

On behalf of the Board:

R. A. McAlpine Director

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended November 30, 1981 with comparative figures for 1980

	1981	1980
Revenue	$ 9,508,000	$ 3,606,000
Expenses:		
Operating	6,662,000	1,836,000
Depreciation and depletion	422,000	223,000
General and administrative	1,055,000	523,000
Interest — long-term debt	510,000	195,000
Interest — other	150,000	—
	8,799,000	2,777,000
Income from continuing operations before income taxes	709,000	829,000
Income taxes on income from continuing operations (note 8):		
Current	308,000	167,000
Deferred	(78,000)	126,000
	230,000	293,000
Net income from continuing operations	479,000	536,000
Net loss from discontinued operations (note 10)	(110,000)	—
Minority interest	(69,000)	—
Extraordinary items net of minority interest:		
Gain on disposal of assets of discontinued operations (net of income taxes of $69,000)	82,000	—
Gain on disposal of investment (net of income taxes of $33,000)	104,000	—
Recovery of income taxes	146,000	—
Net income	632,000	536,000
Retained earnings, beginning of year	1,161,000	700,000
	1,793,000	1,236,000
Dividends paid	75,000	75,000
Retained earnings, end of year	$ 1,718,000	$ 1,161,000

	1981	1980
Earnings per share:		
From continuing operations	9.6 ¢	14.3¢
From discontinued operations	(1.6)¢	—
From extraordinary items	8.8 ¢	—
	16.8¢	14.3¢

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended November 30, 1981
with comparative figures for 1980

	1981	1980
Funds provided:		
From continuing operations	$ 893,000	$ 859,000
Recovery of income taxes	233,000	—
Reduction in agreements receivable	27,000	27,000
Proceeds from long-term debt	2,500,000	455,000
Proceeds on disposal of investment, net of agreement receivable	83,000	—
Proceeds on disposal of assets of discontinued operations, net of agreement receivable	654,000	—
Decrease in subsidiary's investment in parent company's shares	—	2,000
Proceeds from sale of property, plant and equipment	—	81,000
Proceeds from issue of share capital	12,000	—
Decrease in other assets	9,000	—
	4,411,000	1,424,000
Funds used:		
For acquisition	58,000	1,002,000
Discontinued operations	219,000	—
Purchases of property, plant and equipment	1,217,000	445,000
Purchases of oil and gas properties and equipment	29,000	145,000
Reduction of long-term debt	1,846,000	245,000
Dividends paid	75,000	75,000
Redemption of 10% convertible income debentures	41,000	—
	3,485,000	1,912,000
Increase (decrease) in working capital	926,000	(488,000)
Working capital (deficiency), beginning of year	(366,000)	122,000
Working capital (deficiency), end of year	$ 560,000	$ (366,000)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1981

1. Significant accounting policies:

To facilitate the understanding of data included in the financial statements, the significant accounting principles and practices followed by the Company and its subsidiaries are set forth below:

(a) **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Sil Silica Ltd. (Silica) — 100%
Strathcona Resource Industries Ltd. (Strathcona) — 55.38%

All material inter-company transactions have been eliminated.

(b) **Inventories**

Inventories are valued at the lower of cost and net realizable value.

(c) **Property, plant and equipment**

Additions and improvements are capitalized at cost, whereas expenditures for maintenance and repairs are charged to expense. Items of property, plant and equipment retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses are reflected in income.

Depreciation is calculated using the declining balance and straight-line methods to charge the cost of fixed assets, less estimated salvage value, to operations over their useful operating lives, which are currently estimated as follows:

Buildings	10 to 30 years
Manufacturing and processing equipment	10 to 20 years
Automotive and mobile equipment	2 to 10 years
Other equipment	5 to 10 years

(d) **Oil and gas properties**

The Company follows the full cost method of accounting for its oil and gas properties, whereby all costs related to the acquisition, exploration and development of oil and gas reserves are capitalized. The costs are being depleted using the unit production method based on estimated reserves as determined by the Company. Depreciation of production equipment is calculated using the declining balance method at a rate of 10% to charge the cost of such equipment to operations over its estimated useful operating life.

(e) **Income taxes**

Deferred income taxes arise from timing differences in recognizing income for accounting and tax purposes, principally depreciation and depletion.

2. Agreements Receivable:

	1981	1980
Agreement receivable, due in monthly instalments of $2,578 including interest at 13% computed semi-annually, maturing Dec. 15, 1983	$ 171,000	$ —
Agreement receivable, due in four annual instalments of $75,000 including interest	255,000	—
Note receivable, due in nine monthly instalments of $15,000 through November 1, 1982, non-interest bearing. If the balance of $458,000 is not paid by November 1, 1982, the amount receivable increases to $539,000 with interest at Canadian bank prime, due in monthly instalments of principal and interest through November 1, 1985	593,000	—
Note receivable with interest at 10%, due in annual instalments of $27,000	27,000	54,000
	1,046,000	54,000
Current portion	262,000	27,000
	$ 784,000	$ 27,000

3. Property, plant and equipment:

	Cost		Net Book Value	
	1981	1980	1981	1980
Land	$ 3,173,000	$ 3,249,000	$ 3,173,000	$ 3,249,000
Buildings	1,951,000	1,762,000	1,523,000	1,308,000
Manufacturing and processing equipment	3,187,000	2,592,000	1,643,000	1,074,000
Automotive equipment	789,000	4,370,000	572,000	2,551,000
Other equipment	—	212,000	—	35,000
	$ 9,100,000	$12,185,000	6,911,000	8,217,000
Fixed assets held for sale			—	1,300,000
			$ 6,911,000	$ 6,917,000

4. Oil and gas properties and equipment:

	Cost		Net Book Value	
	1981	1980	1981	1980
Producing properties	$ 333,000	$ 333,000	$ 151,000	$ 201,000
Production equipment	253,000	253,000	190,000	203,000
	586,000	586,000	341,000	404,000
Properties under exploration and development	90,000	155,000	90,000	155,000
	$ 676,000	$ 741,000	$ 431,000	$ 559,000

5. Bank advances:

Bank advances are secured by trade accounts receivable and inventories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1981

6. Long-term debt:

	1981	1980
Debenture, secured by a specific first charge on land, buildings and mobile equipment and a first floating charge on all other assets and undertakings of Strathcona except for trade receivables and inventories where the charge will be second to bank advances, due in monthly instalments of principal and interest (13%) of $39,117 maturing February 21, 1984	$ 1,605,000	$ 2,131,000
Bank loan, secured by a specific first charge on certain land, plant and equipment, a specific second charge on certain land, buildings and mobile equippment, and a second floating charge on all other assets and undertakings of Strathcona, due in monthly principal instalments of $16,700 with interest at Canadian bank prime plus 2%	1,966,000	—
Debenture, secured by a floating charge over all the property and assets of Clarepine Developments Ltd. and hypothecation of certain shares of Strathcona, due in annual principal instalments of $150,000 in 1983 through 1985 and the balance on December 31, 1985, with interest at Canadian bank prime plus 2% payable monthly. The Company has granted the holder of the debenture an option to purchase 250,000 shares of Strathcona owned by the Company, exercisable through June 30, 1983. If the option is exercised, the annual principal instalments required are deferred until December 31, 1985	500,000	—
Bank loan, secured by a $500,000 fixed and floating charge debenture, assignment of revenue from certain oil and gas properties and assignment of insurance proceeds on plant and equipment, due in monthly principal instalments of $1,890 with interest at Canadian bank prime plus 1½%	—	414,000
Bank loan, secured by a $250,000 fixed and floating charge debenture, due in monthly principal instalments of $2,085 with interest at Canadian bank prime plus 1½%	—	190,000
Finance contracts, secured by specific charges on automotive equipment, due in monthly instalments of principal and interest of $46,600 including interest at various rates, maturing on various dates from 1981 to 1983	—	1,094,000
Other	15,000	42,000
	4,086,000	3,871,000
Principal due within one year	491,000	930,000
	$ 3,595,000	$ 2,941,000

Annual repayment of long-term debt due in each of the next five years is:

1982 —	$ 491,000
1983 —	680,000
1984 —	1,351,000
1985 —	350,000
1986 —	250,000

7. Share capital:

	1981	1980
Common shares without par value		
Authorized — 10,000,000 shares		
Issued — 3,775,000 (1980 — 3,755,000 less 1422 held by subsidiary)	$ 683,000	$ 671,000
Reserved — The Company granted options to officers to acquire 110,000 of its shares at 62¢ per share exercisable on or before March 31, 1982. Options to acquire 20,000 shares were exercised in 1981.		

8. Income taxes:

(a) Income tax expense is less than the amount calculated by applying the statutory tax rate to income before income taxes due to the availability of resource allowance and earned depletion deductions.

(b) Strathcona has non-capital tax losses available for application against future years' taxable incomes amounting to approximately $3,857,000.

These losses expire as follows:

1982	$ 555,000
1985	2,363,000
1986	939,000

A capital loss of $607,000 is available for application against future capital gains.

9. Remuneration of directors:

The aggregate remuneration paid by the Company to the directors and officers of the Company and its subsidiaries was $370,000 ($190,000 in 1980).

10. Discontinued operations:

During the year, Strathcona discontinued the operations of its transportation division.

Revenue	$ 2,091,000
Expenses:	
Costs and operating expenses	2,161,000
Depreciation	198,000
Interest	149,000
	2,508,000
	(417,000)
Gain on disposal of assets	153,000
	(264,000)
Income tax recovery	154,000
Net loss from discontinued operations	$ (110,000)

11. Industry segment information (thousands of dollars):

	Steel Fabricating	Silica Processing		Consolidated	
	1981	1981	1980	1981	1980
Revenue	$ 5,108	$ 4,400	$ 3,606	$ 9,508	$ 3,606
Depreciation and depletion	$ 131	$ 291	$ 223	$ 422	$ 223
Operating income	$ 498	$ 1,406	$ 1,284	$ 1,904	$ 1,284
General corporate expenses				535	260
Interest expenses				660	195
Income taxes				230	293
Net income from continuing operations				$ 479	$ 536
Identifiable assets	$ 6,591	$ 3,211	$ 2,881	$ 9,802	$ 2881
Identifiable assets (steel fabricating) acquired November 30, 1980				—	4,940
Corporate and discontinued segment assets				2,015	4,654
				$11,817	$12,475
Capital expenditures	$ 317	$ 704	$ 513		

FIVE YEAR REVIEW

(in 000's)	1981	1980	1979	1978	1977
Working Capital	$ 560	$ (366)	$ 122	$ 284	$ (48)
Property, Plant and Equipment	6,911	6,917	1,566	979	878
Oil and Gas Properties and Equipment	431	559	466	345	327
Other Assets	903	142	3	5	8
Long-Term Debt	3,595	3,200	619	495	254
Deferred Taxes	216	295	169	30	51
Minority Interest	2,593	1,925	—	—	—
Shareholders Equity	2,401	1,832	1,369	1,088	860
Revenue	9,508	3,606	2,914	2,145	1,807
Expenses	8,799	2,777	2,403	1,905	1,470
Income Taxes	230	293	167	56	133
Discontinued Operations Loss	110	—	—	—	—
Minority Interest	69	—	—	—	—
Extraordinary Item Income	332	—	10	44	9
Net Income	632	536	354	228	213
Dividends	75	75	75	—	—
Earnings per share Before extraordinary items	8.0¢	14.3¢	9.2¢	4.9¢	5.5¢
Net Income	16.8¢	14.3¢	9.5¢	6.1¢	5.7¢
Cash Flow per share from continuing operations	23.7¢	22.9¢	16.5¢	9.4¢	10.7¢
Shareholders equity per share	63.6¢	48.8¢	36.5¢	29.0¢	22.9¢

CORPORATE INFORMATION

DIRECTORS

J. H. Binnie, P.Eng.
Petroleum Consultant
Victoria, B.C.

D. M. Chisholm
Chartered Accountant
Edmonton, Alberta

R. A. McAlpine, P.Eng.
President and Chief Executive Officer
Clarepine Developments Ltd.,
and Strathcona Resource
Industries Ltd.
Edmonton, Alberta

R. H. Nicholson
Businessman
Vancouver, B.C.

J. J. Stumborg
President, Gem Sod Farms Ltd.
Edmonton, Alberta

OFFICERS AND SENIOR MANAGEMENT

R. A. McAlpine
President and Chief Executive Officer

J. R. Sheard
Vice-President Finance and Secretary-Treasurer

L. D. Johnston
Vice-President and General Manager
KML Custom Fabricators Ltd., a subsidiary of
Strathcona Resource Industries Ltd.

P. J. Levasseur
Vice-President Operations,
Sil Silica, a division of
Strathcona Resource Industries Ltd.

Z. A. K. Saif
Vice-President Engineering
KML Custom Fabricators Ltd., a subsidiary of
Strathcona Resource Industries Ltd.

EXECUTIVE OFFICE

9303 - 51st Avenue
Edmonton, Alberta T6E 4W8
(403) 438-4848

ANNUAL MEETING

2:00 P.M. on Friday, May 7, 1982
at the Executive Office of the Company

TRANSFER AGENT

Canada Trust Company
Calgary, Alberta

STOCK LISTED

Alberta Stock Exchange